



P.O. Box 15021
Albany, NY 12212-5021
(1021 Watervliet Shaker Rd., Albany 12205)
www.empirecorp.org

Joseph P. Herbst
President/Chief Executive Officer

(518) 292-3801
800-253-0053, ext. 3801
Fax (518) 292-3754

VIA E-MAIL: regcomments@ncua.gov

April 18, 2006

Mary F. Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Part 715 ANPR, Supervisory Committee Audits

Dear Ms. Rupp:

Empire Corporate Federal Credit Union (Empire) is proud to count over 1,000 credit unions as members. Empire currently offers a wide array of services including, but not limited to, liquidity, correspondent, item processing, investment, and lending services.

The NCUA is seeking comment on whether and how to modify its Supervisory Committee audit rules to require credit unions: to obtain an "attestation on internal controls" in connection with their annual audits; to identify and impose assessment and attestation standards for such engagements; to impose minimum qualification for Supervisory Committee members; and to identify an impose a standard for the independence required of State-licensed, compensated auditors.

Empire's specific comments are set forth below.

Internal Control Assessment and Attestation

Question 1 – Should part 715 require, in addition to a financial statement audit, an "attestation on internal controls" over financial reporting above a certain minimum asset size threshold?

While Empire believes it is very important that all credit unions have sufficient internal controls, it opposes a requirement for an "attestation on internal controls." This process has been very costly and manpower intensive for the companies that have implemented attestation for Sarbanes-Oxley. Empire is not convinced of the cost benefit of this process. Empire's accounting firm has advised it that the first year costs for an "attestation on internal controls" could be two to three times its typical audit fees. In addition, Empire would need additional staff to document and test internal controls before the audit firm could begin its attestation process. Empire believes that the current requirements for large credit unions to obtain an annual external financial statement audit combined with the NCUA examination process provide sufficient review of large credit union's internal controls.

Question 2 – *What minimum asset size threshold would be appropriate for requiring, in addition to a financial statement audit, an “attestation on internal controls” over financial reporting, given the additional burden on management and its external auditor?*

Empire believes the asset size threshold should not be any lower than the current \$1 billion threshold for attestation by banks. The additional costs associated with attestation on internal controls would most severely impact smaller credit unions.

Question 4 – *Should management’s assessments of the effectiveness of internal controls and the attestation by its external auditor cover all financial reporting, (i.e., financial statements prepared in accordance with GAAP and those prepared for regulatory reporting purposes), or should it be more narrowly framed to cover only certain types of financial reporting?*

Empire believes the attestation should only cover the annual GAAP financial statements.

Question 5 – *Should the same auditor be permitted to perform both the financial statement audit and the “attestation on internal controls” over financial reporting or should a credit union be allowed to engage one auditor to perform the financial statement audit and another to perform the “attestation on internal controls?”*

Empire believes the credit union should be permitted to engage the same auditor for both the financial statement audit and attestation of internal controls.

Question 6 – *If an “attestation on internal controls” were required of credit unions, should it be required annually or less frequently?*

Empire believes the attestation should be required annually with the GAAP audit.

Question 7 – *If an “attestation on internal controls” were required of credit unions, when should the requirement become effective (i.e., in the fiscal period beginning after December 15 of what year)?*

Empire believes any regulation requiring attestation on internal controls should not take effect before December 15, 2009. This date would allow credit unions the necessary time to set up a process to document and test internal controls and allow the credit unions to spread the heavy upfront costs over several years.

Standards Governing Internal Control Assessment and Attestation

Question 8 – *If credit unions were required to obtain an “attestation on internal controls,” should part 715 require that those attestations, whether for a natural person or corporate credit union, adhere to the PCAOB’s AS 2 standard that applies to public companies, or to the AICPA’s revised AT 501 standard that applies to non-public companies?*

Empire believes the attestations for both natural person and corporate credit unions should adhere to the AIPCA’s revised AT501 standards since credit unions are non-public companies.

Qualifications of Supervisory Committee Members

Question 11 – *Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be required to have access to their own outside counsel? If so, at what minimum asset size threshold?*

Empire believes Supervisory Committee members of any size credit union should have access to outside counsel if deemed necessary.

Question 12 – *Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be prohibited from being associated with any large customer of the credit union other than its sponsor? If so, at what minimum asset size threshold?*

Empire does not believe Supervisory Committee members should be prohibited from being associated with any large member of a corporate credit union. Typically Empire's Supervisory Committee has representatives from member credit unions of various asset sizes. Empire believes limiting the pool of potential volunteers to serve on the Supervisory Committee is counterproductive. Potential issues can be eliminated with appropriate conflicts of interest Board Governance policies.

Independence of State-Licensed, Compensated Auditors

Question 14 – *Should a State-licensed, compensated auditor who performs a financial statement audit and/or "internal control attestation" be required to meet just the AICPA's "independence" standards, or should they be required to also meet SEC's "independence" requirements and interpretations?*

Empire believes state-licensed, compensated auditors who perform financial statement audits and/or "internal control attestation" should only be required to meet AICPA "independence" standards since credit unions are not publicly traded companies.

Audit Options, Reports and Engagements

Question 17 – *Should part 715 require credit unions that obtain a financial statement audit and/or an "attestation on internal controls" (whether as required or voluntarily) to forward a copy of the auditor's report to NCUA? If so, how soon after the audit period-end?*

Empire believes financial statement audits and "attestations of internal controls should be forwarded to the NCUA within 30 days of delivery to the Supervisory Committee.

Question 18 – *Should part 715 require credit unions to provide NCUA with a copy of any management letter, qualification, or other report issued by its external auditor in connection with services provided to the credit union? If so, how soon after the credit union receives it?*

Empire does not believe this is necessary since NCUA will receive the audit report and "attestation of internal controls." It believes the NCUA should review other letters or reports as part of the exam process.

Question 19 – *If credit unions were required to forward external auditors' reports to NCUA, should part 715 require the auditor to review those reports with the Supervisory Committee before forwarding them to NCUA?*

Empire believes the report should be reviewed by the Supervisory Committee before it is forwarded to the NCUA.

Question 20 – *Existing part 715 requires a credit union's engagement letter to prescribe a target date of 120 days after the audit period-end for delivery of the audit report. Should this period be extended or shortened? What sanctions should be imposed against a credit union that fails to include the target delivery date within its engagement letter?*

Empire believes 120 days is a reasonable limit. It believes any sanctions should result from the credit union not obtaining the required audit within a reasonable timeframe and should not be based on a simple failure to include a date in the engagement letter.

Question 21 – *Should part 715 require credit unions to notify NCUA in writing when they enter into an engagement with an auditor, and/or when an engagement ceases by reason of the auditor's dismissal or*

resignation? If so in cases of dismissal or resignation, should the credit union be required to include reasons for the dismissal or resignation?

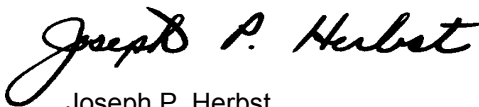
Empire does not believe this is necessary. The Supervisory Committee is responsible for the engagement or dismissal of the external auditor. The actions of the Supervisory Committee are typically reviewed during the NCUA's examination process.

Question 22 – *NCUA recently joined in the final Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters, 71 FR 6847 (Feb. 9, 2006). Should credit union Supervisory Committees be prohibited by regulation from executing engagement letters that contain language limiting various forms of auditor liability to the credit union? Should Supervisory Committees be prohibited from waiving the auditor's punitive damages liability?*

Empire believes Supervisory Committees should not be able to waive auditor's liability.

Empire thanks the NCUA for the opportunity to share its views on Supervisory Committee audits. If you have any questions regarding Empire's comments, please contact me directly.

Sincerely,

A handwritten signature in black ink that reads "Joseph P. Herbst". The signature is written in a cursive, flowing style.

Joseph P. Herbst
Enclosure

cc: Mike Canning, Executive Director, ACCU
Mike Carter, Regulatory Advocacy Coordinator, NYSCUL
Kimberly Dewey, Associate Director, Regulatory Affairs, NAFCU
Empire Corporate FCU Supervisory Committee